

HARVEY LEVY

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1 250. Now, it is 307.
 2 BY MR. RYAN:
 3 Q I am talking first about the November
 4 30th, 1996, figure of 238.
 5 A Right.
 6 Q So during those two months it looks like
 7 the number of physicians in the AIHG network declined
 8 slightly; is that right?
 9 A From September 13th to November 30th it
 10 looks like it did.
 11 Q And there is a reference on the top of
 12 this page in Exhibit 1304 to closures, consolidations
 13 and turnover during the third quarter?
 14 A Right.
 15 Q Were you involved at all in closing
 16 certain practices or in consolidating practices?
 17 A Yes. This is part of that effort that I
 18 was talking about getting doctors to move in together
 19 and whatever to cut down the losses.
 20 Q So during this time period even in the
 21 fall of 1996 you were working actively to try to
 22 consolidate money losing practices?
 23 A Yes, that's correct.
 24 Q Then between November 30th, 1996, and
 25 February 28th, 1997, the number of physicians in the

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1 PR.Dr.K.09-1450 to 58.
 2 (Whereupon, the Court Reporter
 3 marked a document as Exhibit 1305.)
 4 BY MR. RYAN:
 5 Q Do you recognize Exhibit 1305, Mr. Levy?
 6 A No.
 7 Q Do you know who Janet Walz is?
 8 A She was Carol Calvert's secretary. At
 9 this point she was -- was Carol Calvert still here
 10 then?
 11 Q I don't believe so.
 12 A Then she was Donald Kaye's secretary.
 13 Q And the letterhead here is from an office
 14 in Cheltenham?
 15 A That's where our corporate center was,
 16 yes.
 17 Q And, I mean, you had an office there?
 18 A That, I did.
 19 Q The cover memo refers to a practice
 20 review follow-up meeting?
 21 A Yes.
 22 Q Then the attachments appear all to be
 23 summaries of practice review meetings. Are those
 24 meetings that you are familiar with?
 25 A Yes.

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1 AIHG network seems to have increased by about 70,
 2 from 238 to 307; right?
 3 A That's right.
 4 Q And there is a reference at the top to
 5 the addition or planned addition of Founders
 6 practices in Pennsylvania and New Jersey?
 7 A That's correct.
 8 Q Were those about 70 doctors?
 9 A That's about what they were.
 10 Q So is it generally the case that except
 11 for the addition of the Founders practice network
 12 during this timeframe fall of 1996, early 1997 there
 13 was very little, if any, additional acquisition
 14 activity taking place?
 15 A That's correct.
 16 Q And did that continue for the remainder
 17 of the time that you were at AIHG, that the
 18 acquisition activity was very low?
 19 A That's correct. We didn't have any more
 20 money to do it with.
 21 Q And that's then the timeframe when you
 22 then gradually shifted into working on operations?
 23 A That's correct.
 24 MR. RYAN: Let me mark, please, as
 25 Exhibit 1305 a document with Bates numbers

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1 Q What kind of meetings were those?
 2 A These were discussions as to how the
 3 practice -- like it says, Bensalem profit losses
 4 \$400,000, budget \$200,000, decreased -- you know, it
 5 was discussions as to various practices and what we
 6 could do either financially or about admissions. So
 7 it was to discuss how practices were doing.
 8 Q And were these practice reviews part of
 9 an effort to try to run the practices better?
 10 MS. BUTLER: Object to form and
 11 foundation.
 12 THE WITNESS: I guess, yes.
 13 BY MR. RYAN:
 14 Q And do you recall attending such practice
 15 review meetings with Dr. Kaye and others in the
 16 spring of 1996?
 17 A Yes.
 18 Q Who else was active at that time in the
 19 effort to improve performance of the AIHG practices?
 20 MS. BUTLER: Object to form and
 21 foundation.
 22 THE WITNESS: Dr. Segal. That's
 23 probably all.
 24 BY MR. RYAN:
 25 Q Let me show you a letter from Dr. Segal.

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1 It's contained in a rather large previously marked
 2 exhibit, so let me hand you Exhibit 495. Let me just
 3 ask you at the outset, as you look at the cover page
 4 and the table of contents on the next page, is this a
 5 book or binder that is familiar to you?
 6 A Yes.
 7 Q What sort of book was it?
 8 A This was a summary of the practices and
 9 the new structure and whatever else from Allegheny
 10 Integrated Health Group. It was a summary of how the
 11 practices were doing, where they were, who was
 12 involved in each one, all of that.
 13 Q Do you know who prepared this book?
 14 A No.
 15 Q On the cover page it says, Allegheny
 16 Integrated Health Group, Book No. 3. Were there
 17 previous or subsequent books?
 18 A To tell you the truth, I used to get
 19 stuff all of the time and never even looked at it, so
 20 I don't know. There probably were. I'm sure there
 21 probably were.
 22 Q Let me ask you to turn, please, to Page
 23 32 of 160, using the numbers in the bottom right-hand
 24 margin.
 25 A The bottom right-hand margin?

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1 Exhibit 1306, a document with Bates Nos. DM2989,
 2 Pages 1 to 4.
 3 (Whereupon, the Court Reporter
 4 marked a document as Exhibit 1306.)
 5 BY MR. RYAN:
 6 Q Is this a memorandum that you sent to Dr.
 7 Kaye on or about August 20th, 1997?
 8 A Yes.
 9 Q And in it you set forth a plan for
 10 practice consolidations and changes?
 11 A Yes. And other things as well, opening
 12 up stress echo labs. It was all sorts of things.
 13 Q And these were ideas that you had for,
 14 among other things, improving the financial
 15 performance of the AIHG practices; right?
 16 A And capturing a bigger portion of the
 17 patients, yes.
 18 Q To the AHERF hospitals?
 19 A Or at least not out of our system, yes.
 20 Q Were you able to implement most of these
 21 recommendations?
 22 A A lot of them.
 23 Q And do you believe those changes, in
 24 fact, did improve the --
 25 A The losses were basically half or better

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1 Q See these ones printed sideways on the
 2 page.
 3 A Oh, what page?
 4 Q Page 32.
 5 A Okay.
 6 Q Do you see this is a July 9th, 1997,
 7 letter from Dr. Segal to you and Dr. Turtz?
 8 A Yes.
 9 Q It appears to be a lengthy list of 26
 10 numbered items relating to areas of AIHG's operation
 11 that Dr. Segal is interested in understanding.
 12 A Yes.
 13 Q And was this letter part of the effort
 14 that Dr. Segal and Dr. Turtz and you undertook around
 15 this July 1997 timeframe to try to improve the
 16 efficiency of the AIHG group?
 17 A By efficiency -- not only in financial
 18 efficiency, but in referral and capturing of risk
 19 patients, yes. It was all of that. It wasn't just
 20 money.
 21 Q And I think you said earlier that it was
 22 your opinion that Dr. Segal was quite effective in
 23 doing that; is that right?
 24 A Yes.
 25 MR. RYAN: Let me mark, please, as

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1 than half of what they were.
 2 Q There is a reference to that on the last
 3 page, Page 4 of the document. Do you see the
 4 heading, Financial Impact?
 5 A Yes.
 6 Q And the second paragraph begins, Total
 7 budgeted loss for fiscal year 1998 is \$37 million?
 8 A Right.
 9 Q Is that for the eastern region practice
 10 group?
 11 A Yes. I didn't have anything to do with
 12 the other one.
 13 Q And then if I understand what you are
 14 saying right, you calculated that the improvements
 15 that you were making would result, you believed in a
 16 loss of \$11.05 million by June 2000; is that right?
 17 A That's correct.
 18 Q So that was in effect sort of a
 19 three-year plan to cut the losses to about \$11
 20 million a year?
 21 A And maintain the sites that we had. In
 22 other words, like, we couldn't close up that -- some
 23 of the -- this is including all of the OB practices
 24 and -- yes, that we couldn't stop losing money on.
 25 Q Couldn't stop losing money because you

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1 think it was sold. I don't know if he is still
 2 involved in it.
 3 Q Do you know where the company was based?
 4 A It was in New Jersey somewhere. Maybe
 5 around Cherry Hill.
 6 Q Do you know to whom Joel Schreiber sold
 7 the company?
 8 A No.
 9 Q Do you know whether David McConnell
 10 withheld information from Coopers & Lybrand?
 11 MS. BUTLER: Objection to
 12 foundation.
 13 THE WITNESS: No.
 14 BY MR. RYAN:
 15 Q Did you receive any portion of your
 16 compensation in the form of an incentive for the
 17 acquisition of physician practices?
 18 A Yes.
 19 Q Was it an amount per practice acquired?
 20 A \$1,000.
 21 Q And that came on top of your base salary?
 22 A That's correct.
 23 Q Did the incentive amount per practice
 24 acquired vary depending on how profitable the
 25 practice was?

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 6 _____, 2003
 7
 8

9 I hereby certify that the evidence
 10 and proceedings are contained fully and
 11 accurately in the notes taken by me of
 12 the testimony of the within witness who
 13 was duly sworn by me and that this is a
 14 correct transcript of the same.
 15

16
 17
 18
 19
 20 _____
 21 Maureen Stewart, RPR
 22 Notary Public
 23
 24
 25

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1 A No.
 2 MR. RYAN: That's all I have.
 3 VIDEOTAPE OPERATOR: That now
 4 concludes this videotape deposition and Tape No. 3.
 5 The time 4:24 p.m.
 6 (The deposition concluded at
 7 approximately 4:25 p.m.)
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Lisman Dep.

CHARLES W. LISMAN, JR.

Page 1

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF)
UNSECURED CREDITORS OF)
ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION,)

Plaintiff,)

-vs-

PRICewaterhouseCOOPERS, L.L.P.)

Defendant.)

Civil Action
No. 00-684

VOLUME I

VIDEO TAPE

DEPOSITION OF: CHARLES W. LISMAN, JR.

DATE: May 22, 2002
Wednesday, 9:00 a.m.

LOCATION: MANION McDONOUGH & LUCAS
14th Floor, USX Tower
Pittsburgh, PA 15219
412-232-0200

TAKEN BY: Defendant

REPORTED BY: JoAnn M. Brown, RMR
Notary Public
AKF Reference No. JB70344

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1 Q. Do you specifically remember that Mr. Cancelmi
2 used the words "he bought off on it?"

3 A. Can I specifically sit here? No, because if I
4 could specifically say that, I could cite to
5 you what office and at what time frame it was
6 done in. I can't do that.

7 Q. So he could have used other words?

8 A. Sure.

9 Q. Do you remember any other conversations with
10 anyone from Coopers & Lybrand about the \$50
11 million reserve transfer?

12 A. It would have had to have come up when they
13 wanted the backup for one of the liability
14 accounts in the Graduate purchase accounting
15 entries, what was in the asset and what was in
16 the liability. It would have had to have come
17 up at that point.

18 Q. Is there a specific meeting that you remember
19 where that came up?

20 A. There was a document that I had that was the
21 makeup of one of the liability accounts, and I
22 can't think of the name, and I don't know the
23 number, it was a four number, and it detailed
24 out by hospital what the entries were making it
25 up, and out to the right it even showed what
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1 them.

2 Q. All right. Well, after lunch, I'll show you
3 what may be this document you're talking about.

4 A. Okay.

5 Q. Let me just ask you one question now which is:
6 In the answer you just gave, you said often
7 they, and I guess you were referring to people
8 from Coopers?

9 A. Coopers. Correct. It would have been various
10 staff people from Coopers.

11 Q. Do you know which staff people those were?

12 A. I think when I sat down to go through the
13 computer, it was Christa doing the walking me
14 through it, Christa Porter I think that was,
15 and then there were a couple other staff
16 members in that same room at the same time,
17 because I kept wanting to see, okay, is it in
18 your permanent documentation because this is an
19 acquisition? That's where it would have filed
20 when I was auditing or it would have been in
21 liabilities in support for that number, but
22 their system was all in the computer, so you
23 had to kept referencing around till you found
24 it, and I didn't know how to use it, so she was
25 getting me through the system.

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1 the entry was on the other side where it
2 transferred through intercompanies. That I
3 would have had the conversation potentially
4 with someone that did PP&E, because one piece
5 of one of the schedules dealt with PP&E, and
6 that's where we ultimately found it in their
7 work papers, because so many of them had asked
8 me for this document because it hit so many
9 different areas, and I had given it to them on
10 disk. I finally got fed up, and I went back to
11 their -- I think they were in the internal
12 audit section of the thing at that point, and I
13 remember sitting down at their computer and
14 having them walk me through where is this
15 document referenced, because it wasn't the old
16 paper system that I was used to, and they would
17 keep jumping me around, okay, where does that
18 go, where does that go, where does that go, and
19 ultimately I think we found it in PP&E.
20 There's the document you guys keep asking me
21 and I say I've given to each one of you
22 already, but everyone seemed to have lost it.
23 But I remember going through because I was mad
24 because every single one of them kept asking me
25 for it, and I knew I had given it to all of
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1 Q. Was Ms. Frazier there at that time?

2 A. I don't know. I don't. Mark, Amy and Bill
3 were in at varying points. They were not there
4 in a day-to-day capacity. They would come in
5 and do reviews in certain time frames, not
6 every day, though.

7 Q. Okay. So you can't recall if any of the three
8 of them was at that meeting you're talking
9 about where you sat down with the class system?

10 A. No, I can't.

11 MR. RYAN: Okay. Why don't we take a
12 break for lunch at this point.

13 THE VIDEOGRAPHER: We're now going
14 off the record. The time indicated on the
15 screen is 12:34.

16 - - - -

17 (There was a luncheon recess in the
18 proceedings.)

19 - - - -

20 THE VIDEOGRAPHER: We're now back on
21 the record. The time on the screen is 1:35.

22 - - - -

23 (Deposition Exhibit 8 marked for
24 identification.)

25 - - - -

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CHARLES W. LISMAN, JR.

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1 BY MR. RYAN:
 2 Q. All right. We've marked as Exhibit 8 a
 3 document with the Bates Nos. CLIS 0168 through
 4 0170. Do you recognize this document,
 5 Mr. Lisman?
 6 A. Yes.
 7 Q. It's a memorandum from Mr. Cancelmi to
 8 Mr. Spargo dated April 14, 1997, is that right?
 9 A. Correct.
 10 Q. Is this the memo you were talking about before
 11 when you said that you saw a memo from
 12 Mr. Cancelmi about the \$50 million reserve
 13 transfer?
 14 A. Yes.
 15 Q. Now, if you look at the list of people who are
 16 copied on the last page, it's Joe Dionisio,
 17 Chuck Morrison, Greg Snow and Al Adamczak, is
 18 that right?
 19 A. Correct.
 20 Q. Do you believe that you received a copy of this
 21 memo close to the time when it's dated?
 22 A. Yes.
 23 Q. Did you ever provide this memo to Coopers &
 24 Lybrand?
 25 A. Not that I recall.

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1 they can get printed out in different format,
 2 but I guess if you wouldn't mind taking a close
 3 look at the three pages with the Bates numbers
 4 in the bottom right corner ending in 33, 34 and
 5 35 and letting us know whether you think that
 6 these are schedules that you prepared and
 7 provided to Coopers & Lybrand?
 8 A. Something similar to this, yes.
 9 Q. Now, there's one schedule for The Graduate
 10 Hospital, is that right?
 11 A. Correct.
 12 Q. And the second schedule is for Mt. Sinai
 13 Hospital?
 14 A. Correct.
 15 Q. And the third schedule is for Rancocas
 16 Hospital?
 17 A. Correct.
 18 Q. Were those the three former Graduate Health
 19 System hospitals for which you had accounting
 20 responsibilities?
 21 A. Yes.
 22 Q. Do you know whether anyone at AHERF prepared a
 23 schedule like this for the Parkview or City
 24 Avenue hospitals?
 25 A. I don't remember.

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1 Q. Do you know whether anybody else at AHERF
 2 provided this memo to Coopers & Lybrand?
 3 A. I can't say that for sure, no.
 4 Q. Has anybody ever told you that they provided
 5 this memo to Coopers & Lybrand?
 6 A. I don't remember.
 7 MR. RYAN: Let me mark, please, as
 8 Exhibit 9 the document with the Bates Nos. CL
 9 013232 through 013236.
 10 ----
 11 (Deposition Exhibit 9 marked for
 12 identification.)
 13 ----
 14 BY MR. RYAN:
 15 Q. All right. If you could turn, please, to the
 16 second page of Exhibit 9. Is this schedule
 17 familiar to you?
 18 A. Yes.
 19 Q. Is -- sorry. Go ahead.
 20 A. Not necessarily in this format. Mine would
 21 have been landscaped, the one that I had. That
 22 looks like similar data that would have been my
 23 schedule.
 24 Q. I understand. And what happens is when
 25 schedules go into the class system, sometimes

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1 Q. Could you describe for us what the purpose of
 2 these three schedules is?
 3 A. This was detailing out the activity relative to
 4 the Graduate acquisition. This should have
 5 been the balances that went into the liability
 6 account and, I believe, the account numbers
 7 after you get past -- and I'm looking from the
 8 left side of the page going into the right.
 9 After you get by description, then you have
 10 2501900. If I had a general ledger, I would be
 11 able to tell you the account name for that, but
 12 I think that is the liability account. Then
 13 any of the accounts beyond the total of 2501900
 14 would say where the corresponding liabilities
 15 or the other side to the entries went to, and
 16 then out to the right where it says Other G/L
 17 number -- second column in from the right,
 18 Other G/L --
 19 Q. Right.
 20 A. -- is where the other side would have
 21 ultimately gone to.
 22 MR. JONES: Note my objection to
 23 foundation in that I don't think he has
 24 testified that he prepared these particular
 25 schedules.

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1 a sentence that you already read, that it is
 2 not technically the appropriate -- most
 3 technically appropriate resting place. That it
 4 wasn't necessarily right, but it might not
 5 necessarily be wrong, but that's how the
 6 transaction was going to go.
 7 Q. Right. And I see what he says here in this
 8 memo.
 9 A. Okay.
 10 Q. What I'm asking you is to try to recall whether
 11 or not you had a view, after speaking to
 12 Mr. Cancelmi, about whether the transfer of
 13 reserves, the \$50 million of reserves was
 14 improper?
 15 A. And my answer probably still would be, yes, I
 16 probably had a question on it.
 17 Q. Did you feel uncertain as to whether it was
 18 proper or improper?
 19 A. I think there's -- whether it's proper or
 20 improper, this memo even tells you it's not the
 21 most technically appropriate place. However,
 22 my boss and our outside accounting firm was
 23 okay with the transaction being recorded in
 24 that method, so we got the entries written up
 25 to record in that method.
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1 Q. Yes.
 2 A. No. Who would have notified me how much had to
 3 come from each hospital, I would have gotten
 4 that from Dan. Who made the decision as to
 5 where, when, why and how, I don't know.
 6 Q. Did you ever speak to anybody from Coopers &
 7 Lybrand about these additional reserve
 8 transfers?
 9 A. Not that I recall.
 10 Q. Did you ever discuss with Mr. Cancelmi whether
 11 he had spoken to Coopers & Lybrand about the
 12 additional reserve transfers?
 13 A. I don't recall.
 14 Q. Did you ever speak to Ms. Schaffer about
 15 whether she spoke to Coopers & Lybrand about
 16 the additional reserve transfers?
 17 A. I don't remember.
 18 Q. Have you ever heard of anybody at AHERF
 19 speaking to Coopers & Lybrand about the reserve
 20 transfers beyond the \$50 million?
 21 A. Specifically, no.
 22 Q. Even generally?
 23 A. I would have seen a memo on it. I don't know
 24 if that memo went to them, but in an audit of
 25 the intercompany activity, not just that they
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1 Q. Did you consider talking to anybody other than
 2 Mr. Cancelmi about this \$50 million reserve
 3 transfer?
 4 A. No. You mean like Steve or someone above Dan?
 5 No. No.
 6 Q. Did you think about talking directly to Coopers
 7 about the \$50 million reserve transfer?
 8 A. Talking to Bill Buettner about it?
 9 Q. To anyone at Coopers.
 10 A. Well, if it was Bill that was the one making
 11 the decisions, it would have to have come from
 12 Bill because it would be third party if you
 13 talked to anyone else, but, no, I would not
 14 have called Coopers to see their viewpoint. I
 15 had no reason to disbelieve Dan telling me
 16 that.
 17 Q. Now, at a later point in fiscal year 1997,
 18 AHERF transferred some additional reserves from
 19 the Graduate hospitals to the DVOG hospitals,
 20 right?
 21 A. I recall something else transferring. I don't
 22 know what it is off the top of my head.
 23 Q. Do you know who decided to make those
 24 additional reserve transfers?
 25 A. Who decided?
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1 balance, but if you audit the large
 2 transactions, it should have kicked out, in
 3 auditing those transactions, what is the
 4 support for this, but I don't know that, yes,
 5 it was discussed with them one way or another
 6 or if they performed that audit of the
 7 intercompany transactions versus just looking
 8 to make sure everything balanced out and they
 9 were fine.
 10 Q. So just to be clear, you never heard anybody at
 11 AHERF claim that they told Coopers & Lybrand
 12 about reserve transfers beyond the \$50 million?
 13 A. I don't remember.
 14 MR. JONES: Object to form.
 15 Q. Do you know why AHERF made those additional
 16 reserve transfers beyond the \$50 million?
 17 A. Sitting here today, no. I know there was a
 18 memo on it.
 19 MR. RYAN: Let me mark, please, as
 20 Exhibit 10, a packet of documents with the
 21 Bates Nos. TN C9A 01320 through 01376.
 22 ---
 23 (Deposition Exhibit 10 marked for
 24 identification.)
 25 ---
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1 BY MR. RYAN:

2 Q. Now, I've been told you, Mr. Lisman, that these
3 documents come from files associated with you,
4 but I'd like you to try to look through this
5 and see if you can verify that, if you
6 recognize these documents, the handwriting on
7 the file folder, et cetera?

8 A. When you say associated with me, what are
9 you -- that these came out of folders that were
10 in my office?

11 Q. I've been told that C9A means Chuck Box 9A?

12 A. Okay.

13 MR. JONES: Who told you that for the
14 benefit of the witness and me?

15 MR. RYAN: There's an index to the
16 trustee's repository that indicates that.

17 MR. JONES: I thought TN stands for
18 Tenet?

19 MR. RYAN: Right.

20 MR. JONES: And that's where these
21 were housed at some point -- became housed at
22 some point?

23 MR. RYAN: Right.

24 THE WITNESS: That these became --
25 anything that went to Tenet would have been
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1 Q. Absolutely. That's the first thing I'm trying
2 to get straight in the record is whether these
3 really are from your files or not?

4 A. Okay. I recognize most of them.

5 Q. Do you recognize the handwriting on what
6 appears to be a file label on the first and
7 second pages of Exhibit 10?

8 A. That would be my writing.

9 Q. All right. Does that say fiscal year '96
10 year-end adjustments?

11 A. Yes.

12 Q. Do you recall that you maintained a file of
13 documents relating to year-end adjustments?

14 A. Yes.

15 Q. And does this appear to be that file?

16 A. It appears to be some component of it, yes.

17 Q. Now, if you could turn, please, to the third
18 page of the exhibit which has the Bates No.
19 1322, do you see a schedule entitled Delaware
20 Valley Year-End Adjustments?

21 A. Yes.

22 Q. Are you able to tell from the computer file
23 name who typed up this schedule?

24 A. I can tell you whose drive it was stored on. I
25 can't tell you physically who typed it up. An
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1 copies. The originals all remained at AHERF.

2 MR. RYAN: Okay.

3 THE WITNESS: So I'm just trying to
4 clarify his comment that these went to Tenet.
5 These would have been copies that made it to
6 Tenet. The originals would have stayed with
7 AHERF.

8 MR. RYAN: Okay.

9 MR. JONES: Mr. Lisman, because
10 you're apparently an unrepresented non-party
11 witness, it's fair, I think -- Antony, correct
12 me if I'm wrong -- to tell you that just
13 because Antony or his colleagues think that's
14 where they came from and have every reason to
15 believe, it doesn't mean that it, with all
16 certainty, occurred that way, and you may
17 ultimately say I've never seen these documents
18 or whatever you want. He's not telling you
19 believe him at pain of penalty of, you know,
20 imprisonment. He's telling you this is where I
21 think these documents came from. You can tell
22 him whatever you want about where they really
23 came from if you know.

24 THE WITNESS: Okay.

25 BY MR. RYAN:
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1 S would be the shared drive on the AHERF
2 system, and then Jodie would be Jodie Finn, our
3 secretary. 123 indicating it's Lotus.
4 Delaware -- DVY -- DV, Delaware Valley, year
5 end, YE, adjustment, and depending on the
6 timing, if Jodie started it and 4:30 rolled
7 around and she had to leave, I may have ended
8 up having to finish it or she may have done the
9 whole thing. I don't know sitting here which
10 logical pattern it went, but that did often
11 occur, that I would start a file, she would
12 finish it when she came in, or she'd start one
13 and I'd finish it.

14 Q. Do you recognize the handwriting on this page?

15 A. Yes.

16 Q. Whose handwriting is it?

17 A. That would be my writing.

18 Q. Is all of it, so far as you can tell, your
19 writing?

20 A. It appears to be.

21 Q. Who prepared the typed schedule? That is, who
22 came up with the idea to create the schedule
23 like this?

24 A. This schedule?

25 Q. Yes.

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1 I can't say for sure.

2 Q. Do you remember anything about the journal

3 entries shown on this page?

4 A. Not as we sit here now, no. There would be

5 something in support of -- these numbers

6 wouldn't have been just picked out of thin air

7 by corp. without having something else in

8 support of it, and I assume we're going to get

9 to that, but I don't know. We wouldn't have --

10 there would be something giving me these

11 numbers and how much to record on each of the

12 hospitals and what they were for.

13 Q. Okay. Could you turn, please, to Bates No. 53

14 and 54?

15 A. Okay.

16 Q. Do you see this is a document headed AHERF

17 Analysis of Reserves?

18 A. Yes.

19 Q. Is this a schedule that you prepared?

20 A. This would be a schedule that was on my

21 computer, yes, based on information that I got

22 from various people at various points in time

23 that was used to track or to keep track of the

24 reserves at various hospitals.

25 Q. All right. So you were, in effect, the

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1 many columns and how many updates there were of

2 this file.

3 Q. All right. So there could have been other

4 columns in the computer file that you may have

5 used to hide functions so that they didn't

6 appear on the printout?

7 A. Columns, yes, not rows. I would hide the

8 columns generally.

9 Q. Did Mr. Cancelmi tell you to maintain this

10 schedule?

11 A. He would have asked me to do this. He would

12 have given me the original handwritten version

13 or some component of it, if AI had all the

14 Pittsburgh ones and he had the Delaware Valleys

15 or Chuck had them, and we would have put them

16 into the computer and kept track of them from

17 there.

18 Q. For what purpose did you maintain this reserve

19 schedule?

20 A. This was just a simple way so that you did not

21 have to go and research through the general

22 ledger to find where you had potential reserves

23 on a given hospital. This just kept a

24 top-level picture of any hospital at that point

25 in time, whatever the point was.

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1 custodian of this schedule? You would update

2 it and so forth?

3 A. Whenever I was asked to give an update of it,

4 yes. I don't know who did it prior. There was

5 some other version. Obviously, I didn't start

6 till March of '95. There was some handwritten

7 version tracking these items prior to that. So

8 this is just taking that version and prettying

9 it up and updating it.

10 Q. Did you begin to maintain this schedule shortly

11 after you started at AHERF?

12 A. I don't remember when I started maintaining it.

13 You would have to look in my computer to see

14 when the file was created. I don't remember

15 when I did it.

16 Q. But it was something you did over a period of

17 years?

18 A. This would be from beginning -- this could be

19 updated if Dan said he wanted an update this

20 month and then he wanted an update two months

21 from now and might not want another update for

22 six months, and usually there was either a tab

23 added or another column and you'd hide columns

24 and you'd add new columns and you'd hide old

25 columns. So I don't know that actual -- how

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1 Q. Did you and Mr. Cancelmi have a term that you

2 used to refer to this reserve schedule?

3 A. The X File.

4 Q. Is that like on the T.V. show the X Files?

5 A. I don't know how it came about. I honestly

6 don't. I just remember we used to call it the

7 X File. I don't know why. I don't know.

8 Q. X for excess or what?

9 A. I have no idea at this point in time. It was a

10 name that stuck, and that's just what we --

11 we'd refer to it as that or we could call it

12 the analysis of reserves.

13 Q. When you just normally talked about this

14 schedule, what term would you use?

15 A. We would call it the X File.

16 Q. Did you ever provide the X File to Coopers?

17 A. No. I would have provided the X File to Dan.

18 Q. Is there anybody besides Dan Cancelmi that you

19 provided the X File to?

20 A. If he would have directed me to give it to

21 someone, I would have given it to them.

22 Q. Do you recall any instance where he asked you

23 to give it to anybody else?

24 A. Not directly that I recall.

25 Q. Who else knew that the X File existed?

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1 A. I don't know who all knew that it existed. I
 2 think quite a few people knew that it existed.
 3 Q. Other people who worked with you and Dan
 4 Cancelmi?
 5 A. Yes. I think there were people -- I don't know
 6 if anyone from Coopers had this or not. I know
 7 there were people -- Dan obviously shared it,
 8 because that one we were just referring to, I
 9 saw a copy to Steve Spargo. He had it. I know
 10 there was one that David McConnell had. I know
 11 Sherif that was on one. I know that various
 12 staff members within AHERF, that our staff knew
 13 that this file existed. But all it was is it
 14 brought reserves that if you looked at any
 15 given account on a hospital that you were
 16 responsible for -- if an accountant had
 17 responsibility for Temple, like Jeff Bamburak
 18 on St. Christopher's, he would have known he
 19 had a reserve on his set of books. This just
 20 brought it to one place, but in the revenue
 21 section, Jeff wouldn't have known what he had
 22 in the revenue section, so Robin would have
 23 provided that piece of information. This is
 24 just one -- this is a management tool to know
 25 what everything was on each of the hospitals.
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1 Q. Is it your understanding that the X File was
 2 supposed to be a helpful general overview of
 3 the reserve position at the various hospitals?
 4 A. That's what I would view it as, yes.
 5 Q. But you can't recall ever mentioning to Coopers
 6 that the X File existed, right?
 7 A. Not that I recall, no, but if you're auditing
 8 every account, this is just bringing it all in
 9 one pretty picture is all this did, but, no, I
 10 don't recall giving it to them.
 11 Q. Now, the numbers that are listed for the
 12 various rows, do they always correspond to
 13 current balances on the general ledger or could
 14 they be simply portions of a general ledger
 15 account that, through some other process, were
 16 considered to be reserves?
 17 A. They would be a part. Some would be direct
 18 dollar for dollar. Some would be a part of a
 19 larger number potentially.
 20 Q. Okay. So if I went to the general ledger for
 21 AHERF for June 30, 1995 or for June 30 of 1996,
 22 I wouldn't necessarily be able to find all
 23 these figures in the general ledger, right?
 24 A. If you went to an AHERF general ledger, you
 25 wouldn't find any of these. You would have to
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1 go to each hospital.
 2 Q. I apologize. If I went to the AHERF hospitals'
 3 general ledgers at either June 30 of 1995 or
 4 June 30 of 1996, I wouldn't necessarily be able
 5 to find all these figures on the X file
 6 schedule in the general ledgers, would I?
 7 MR. JONES: Object to form.
 8 A. You would not necessarily find each one of
 9 these dollar for dollar in the ledger. Some of
 10 them you might see dollar for dollar in the
 11 ledger.
 12 Q. Other would be, in effect, buried in larger
 13 account balances, right?
 14 A. They wouldn't be buried. They would be a
 15 component of a larger balance that if you had
 16 the account makeup, it should be a portion of
 17 the account makeup of that account.
 18 Q. Now, do you know whether Mr. Cancelmi used the
 19 X File in making year-end adjustments?
 20 A. I don't know that I've said that Mr. Cancelmi
 21 made year-end adjustments. This is what this
 22 document -- Exhibit 10, Bates No. 22 is what
 23 would have been given to me. I don't know if
 24 Dan made that decision or if he would have sat
 25 down with Steve, gone through the potential
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1 reserves that were available on a hospital, and
 2 then Steve would have in turn gone to David
 3 McConnell. I don't know where the link went.
 4 I'm not saying that Dan made the decision to
 5 book these entries. I got my documents from
 6 Dan that told me how much to take and record on
 7 the various hospitals. Who he got his marching
 8 orders from, I assume, was Steve. So he did
 9 not make the decision to make year-end
 10 adjustments.
 11 Q. Did Mr. Cancelmi ever tell you whether he and
 12 the people who were superior to him, such as
 13 Mr. Spargo and Mr. McConnell, used the X File
 14 in deciding what year-end adjustments to make?
 15 A. There were various points in time, because I
 16 know this file. This one happens to say, when
 17 I go to document 54, cc S. Spargo. I would
 18 have to print this document again potentially
 19 taking cc Spargo off and making it cc Abdelhak
 20 and McConnell, and then potentially when Dan
 21 later had to go through it with Al, I would
 22 have completely tumble this thing around,
 23 because Al liked to see Pittsburgh entities
 24 first. So that meant that AHERF and AGH and
 25 any of his original hospitals would have to
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1 come to the top of the schedule, and the
 2 Delaware Valley stuff would have to get moved
 3 down. It all depended who this went to, but
 4 there were copies that had cc Abdelhak, cc
 5 McConnell, and this one happens to be cc
 6 Spargo.
 7 Q. All right. You recall that from time to time
 8 you provided copies of the X Files both to
 9 Mr. Abdelhak and to Mr. McConnell?
 10 A. No. I provided it to Dan. Based on who he
 11 told me to put on the cc, I would hand to Dan.
 12 Dan, I assume, went to Steve. I don't believe
 13 Dan went and sat down with Mr. Abdelhak or
 14 Mr. McConnell. I think he went and sat down
 15 with Steve. Steve in turn would take the cc
 16 Abdelhak and McConnell and sit down with them
 17 was my understanding of how the process went.
 18 Q. Okay. And that's what Mr. Cancelmi told you?
 19 A. Well, based on the fact that because it said
 20 cc, I didn't physically put it in the
 21 intercompany mail and send it to David
 22 McConnell or Sherif Abdelhak. I would give the
 23 cc Steve to Dan, and I would also give the cc
 24 McConnell and Sherif to him, who I presume he
 25 would then give to Steve so that he could go
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1 package given to numerous doctors that they
 2 were terminating or potentially terminating,
 3 and later that doesn't necessarily mean that it
 4 went -- got reversed. It could have actually
 5 been paid to those people. I don't remember
 6 the specifics around the transaction, but it
 7 did relate to termination of some doctors or
 8 group of doctors.
 9 Q. So, let me just follow up on a comment you just
 10 made. The fact that a reserve amount on the X
 11 File is present at one date and it's gone the
 12 next date --
 13 A. Correct.
 14 Q. -- doesn't necessarily mean that it was taken
 15 into income all in one fell swoop?
 16 A. Correct. Some of these are timing issues.
 17 PP&E reserve is the next one in line.
 18 Q. Right.
 19 A. If you do nothing with PP&E reserve, by the end
 20 of the depreciable life of that asset, it will
 21 have caught itself up, or you can correct it
 22 today. You have that option. Some of them go
 23 away on their own or you can take them now.
 24 Q. All right. I think we already spoke about
 25 capitalizing School of Public Health costs, so
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1 and talk to them with.
 2 Q. All right. But you printed out at various
 3 times copies of the X File that, in your
 4 understanding, were intended to be provided to
 5 Mr. Abdelhak and Mr. McConnell?
 6 A. Yes.
 7 Q. Do you have -- strike that.
 8 Do you recall, as of what times
 9 Mr. Abdelhak or Mr. McConnell saw copies of the
 10 X File?
 11 A. No, I don't. It would be whenever Dan would
 12 ask me for a copy, and he would tell me who, if
 13 anyone, he wanted as the cc.
 14 Q. All right. So looking at the schedule on Bates
 15 53, do you see the first row at Allegheny
 16 University is revenue reserve from Center City?
 17 A. Okay.
 18 Q. Do you know what that represents?
 19 A. No. I don't remember.
 20 Q. Do you see the second row is accrued severance?
 21 A. Correct.
 22 Q. Do you know what that represents?
 23 A. There were numerous -- I'm going to just tell
 24 you what I know about it. I don't know the
 25 specifics. There was a potential severance
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1 let me move to the next row which is Hamot,
 2 H-A-M-O-T, Hamot restricted monies.
 3 A. Yes.
 4 Q. Do you recall what that represents?
 5 A. No.
 6 Q. Is that something Carolyn Cafaro would know?
 7 A. Carolyn or Dan.
 8 Q. All right. You see the next entry, the first
 9 one under St. Christopher's Hospital for
 10 Children, it says accrual of fiscal year '97
 11 expenses?
 12 A. Yes.
 13 Q. Do you know what that represents?
 14 A. Without looking back, no.
 15 Q. Do you know whether those were advertising
 16 costs?
 17 A. Was that St. Christopher's? One of the
 18 hospitals did have some sort of advertising
 19 cost. I don't remember which one. That could
 20 be. I don't know for sure.
 21 Q. Do you believe that this is a timing issue from
 22 different years?
 23 A. I can't say factually today, but it's possible.
 24 Q. All right. So two rows down there's an entry
 25 for revenue reserve again?
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1 A. Correct.

2 Q. Do you have any knowledge about this revenue

3 reserve?

4 A. No.

5 Q. All right. The next entry is prior year CRA.

6 Do you know what that represents?

7 A. That would be a CRA number that would have come

8 out of Joe Scharf's group.

9 Q. Did Joe Scharf determine what the reserves were

10 in the CRA accounts?

11 A. He would have, with his people, determined,

12 based on what cost reports they filed, where

13 they thought they had additional potential

14 revenues coming out of those cost reports, and

15 I thought that they sat down with, I want to

16 say, Dwayne Jarrell of Coopers every year and

17 went through the cost report or the CRA's and

18 what cushions/reserves they had in the various

19 buckets.

20 Q. Do you know whether anybody at AHERF outside

21 Mr. Scharf's group had the ability to overrule

22 him on the appropriate reserve amounts for

23 CRA's?

24 A. Run that by me one more time.

25 Q. Do you know whether anybody at AHERF outside

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1 A. Back then, yes. Today, no. There was a

2 dispute with Temple, the doctors, and there was

3 an agreement with sending residents in and the

4 service they were providing, and there was some

5 O.R. reserve. I don't remember that particular

6 item, but there were numerous items relative to

7 the Temple account.

8 Q. Do you know what O.R. stands for?

9 A. I would assume it stands for operating room,

10 but I don't know that for sure what I was

11 thinking when I put O.R. there, but looking at

12 it now, O.R. means operating room to me.

13 Q. All right. The next row says general accrual.

14 Is that the same type of general accrual

15 account we were talking about earlier?

16 A. Yes. That would be the reference back to --

17 just trying to make a link between them. It

18 should be document 39 rounded to the thousands,

19 a million two.

20 Q. In fact, it's the same amount of money,

21 \$1,200,000, as on the schedule of year-end

22 adjustments at Bates 22, right, where it shows

23 reverse general accruals for St. Christopher's

24 of a \$1,200,000?

25 A. Yes.

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1 Mr. Scharf's group had the ability to overrule

2 Mr. Scharf as to what the appropriate reserves

3 should be in a CRA account?

4 A. Overrule him?

5 Q. Yes.

6 A. Well, I don't know what you mean by overrule

7 him.

8 Q. Could Dan Cancelmi say, Joe, I see you want to

9 have this amount of money in the account, but I

10 think it should be a different amount of money?

11 A. I think he relied on Joe to tell him what he

12 thought he had, and a lot of times it wasn't

13 even Dan would sit down with Joe, it was Steve

14 would tell Dan that he and Joe had sat down

15 with CRA's. Here's what Joe thinks. Joe

16 didn't like to tell anyone how much excess he

17 potentially had in the CRA accounts, so he was

18 very touchy on that. So a lot of times Steve

19 would have to get that information from him.

20 Q. I think we've already talked about, at least in

21 general, entries for PP&E reserve and Health

22 Partners unrecorded equity. You see the next

23 line says Temple O.R. reserve?

24 A. Yes.

25 Q. Do you know what that represents?

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1 Q. All right. So the next item is inventory

2 reserve. Is that the type of reserve you were

3 describing for us before?

4 A. Potentially, yes.

5 Q. And there could be changes in that reserve if a

6 physical assessment of the inventory was

7 performed at some time?

8 A. A physical inventory of the inventory was done.

9 Q. Got it. Do you see a couple rows down there's

10 an entry for SHSH Building?

11 A. Yes.

12 Q. Do you know what that represents?

13 A. It was the Shush Building, and there were

14 some -- that's just what I knew it by, and

15 that's actually going the opposite direction.

16 Q. Well, I was going to ask you about that.

17 A. There was something -- that was something -- I

18 think that related to some sort of a condemned

19 building, and we had a potential for that

20 amount. So that wasn't a reserve. That was a

21 potential exposure item. So that's why it

22 would be negative in here.

23 Q. So it's your understanding that that was a

24 potential liability not carried on AHERF's

25 financial statements, is that right?

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1 off the record. The time on the screen is
2 5:05. We'll reconvene tomorrow.

3 -----
4 (The proceedings were temporarily
5 adjourned at 5:05 p.m.)
6 -----

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1 COMMONWEALTH OF PENNSYLVANIA) ERRATA
2 COUNTY OF ALLEGHENY) SHEET

3 I, CHARLES W. LISMAN, JR., have read the
4 foregoing pages of my deposition given on Wednesday,
5 May 22, 2002, and wish to make the following, if any,
6 amendments, additions, deletions or corrections:
7
8
9
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11
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14
15
16
17
18
19

Page/Line Should Read Reason for Change

20 In all other respects, the transcript is true and
21 correct.

22 CHARLES W. LISMAN, JR.

23 Subscribed and sworn to before me this
24 _____ day of _____, 2002.

25 Notary Public
AKF Reference No. JB70344
MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE
2 COUNTY OF ALLEGHENY) SS:

3 I, JoAnn M. Brown, RMR, a Court Reporter and
4 Notary Public in and for the Commonwealth of
5 Pennsylvania, do hereby certify that the witness,
6 CHARLES W. LISMAN, JR., was by me first duly sworn to
7 testify to the truth; that the foregoing deposition
8 was taken at the time and place stated herein; and
9 that the said deposition was recorded
10 stenographically by me and then reduced to printing
11 under my direction, and constitutes a true record of
12 the testimony given by said witness.
13 I further certify that the inspection, reading
14 and signing of said deposition were NOT waived by
15 counsel for the respective parties and by the
16 witness.

17 I further certify that I am not a relative or
18 employee of any of the parties, or a relative or
19 employee of either counsel, and that I am in no way
20 interested directly or indirectly in this action.
21 IN WITNESS WHEREOF, I have hereunto set my hand
22 and affixed my seal of office this 27th day of May,
23 2002.

24 _____
25 Notary Public
MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 AKF REPORTERS, INC.
2 AKF Building
3 436 Boulevard of the Allies
4 Pittsburgh, PA 15219
5 (412) 261-2323

6 May 27, 2002

7 TO: Charles W. Lisman, Jr.
8 681 Valencia Road
9 Mars, PA 16046

10 RE: VOLUME I DEPOSITION OF CHARLES W. LISMAN, JR.

11 NOTICE OF NON-WAIVER OF SIGNATURE

12 Your deposition transcript is completed and
13 ready to be read and signed by you.
14 You must come to our office where your
15 deposition transcript will be submitted to you, in
16 the privacy of a conference room, for reading and
17 signing. Please call our above number to make an
18 appointment. Our office hours are 9:00 a.m. to 5:00
19 p.m., Monday through Friday.

20 All corrections, if any, are to be noted on an
21 Errata Sheet, which is part of the transcript. We
22 will then notarize your signed Errata Sheet and send
23 a copy to all attorneys who ordered a copy of the
24 transcript.

25 You must read and sign your transcript within
thirty (30) days of your receipt of this Notice.

JoAnn M. Brown, RMR
Court Reporter
AKF Reporters, Inc.
AKF Reference No. JB70344
cc: Antony L. Ryan, Esq.
James M. Jones, Esq.

CHARLES W. LISMAN, JR.

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IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF)
UNSECURED CREDITORS OF)
ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION,)

Plaintiff,)

-vs-)

PRICewaterhouseCOOPERS, L.L.P.)

Defendant.)

Civil Action
No. 00-684

VOLUME II
VIDEO TAPE

DEPOSITION OF: CHARLES W. LISMAN, JR.

DATE: May 23, 2002
Thursday, 9:05 a.m.

LOCATION: MANION McDONOUGH & LUCAS
14th Floor, USX Tower
Pittsburgh, PA 15219
412-232-0200

TAKEN BY: Defendant

REPORTED BY: Claire Gross, CRR, RDR
Notary Public
AKF Reference No. Cg70369

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1 A. I believe it would have been Allegheny
 2 General.
 3 Q. Do you recall how many Lockhart funds there
 4 were?
 5 A. I don't know enough about it. I just
 6 remember there was -- it was 5 to \$6 million
 7 that had grown, I want to say, to the
 8 hundred, almost a hundred million mark from
 9 that point in time.
 10 Q. Do you know when you prepared Exhibit 18?
 11 A. When meaning what, what date?
 12 Q. What date, yes.
 13 A. It wouldn't have been in 1996 because that's
 14 back to what we had discussed yesterday.
 15 That was west reporting, and I was on east
 16 reporting.
 17 This would have probably been done at
 18 a later point in time when Dan took over more
 19 the AHERF responsibilities and wanted to know
 20 how they had recorded all of the various
 21 pieces because no one could pull together
 22 where all the activity had been booked and
 23 how it was booked.
 24 Q. Do you recall Mr. Cancelmi asking you to put
 25 together this schedule?
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1 entry, and there was no one place you could
 2 see all the pieces.
 3 They would have handed you a stack of
 4 journal entries, here's this piece, here's
 5 that piece, here's this piece. Well, Dan
 6 would not have wanted to sit there and flip
 7 through to see the impact of every journal
 8 entry, so hence I would have taken all those
 9 journal entry copies I would have gotten from
 10 my west colleagues and then scheduled them
 11 out as to what general ledger accounts they
 12 basically hit.
 13 And you see that I've indicated which
 14 journal entry in the second column that they
 15 did and which accounts are up right after the
 16 headings. Like, for example, Participating
 17 Trust they would have booked to account
 18 2002190, and et cetera through the line.
 19 So this would have been -- I would
 20 have gotten the documents from the west
 21 people, but then I would have brought it in
 22 one page so that Dan could have seen the
 23 total picture rather than sitting there and
 24 reviewing through, it looks like, 20 to 25
 25 individual entries and still not know what
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1 A. He would have versus myself just doing it out
 2 of the blue?
 3 Q. Right.
 4 A. He would have asked me to do this because I
 5 would have had no need to look at the
 6 transactions relative to how Pittsburgh had
 7 booked them and the Lockhart funds.
 8 Q. Do you know why Mr. Cancelmi was interested
 9 in learning what the journal entries had been
 10 in fiscal year 1996?
 11 A. I would have known then. I don't as we sit
 12 here today.
 13 Q. Do you know whether Mr. Cancelmi was
 14 concerned that the classification of the
 15 Lockhart funds was improper?
 16 MR. JONES: Object to form.
 17 A. I would have known then. I don't know today
 18 why I had to prepare this specifically.
 19 Q. When you said that no one could recall how
 20 the entries had been done in the fiscal year
 21 1996, why didn't you just go and ask your
 22 colleagues in the western region accounting
 23 group?
 24 A. You could ask the west region people,
 25 however, they did everything manual journal
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 the impact on any given account was.
 2 Q. So you actually received a stack of manual
 3 journal entries from somebody in the western
 4 region accounting group?
 5 A. I would have probably had someone run a
 6 McCormick & Dodge activity on the various
 7 accounts that we would have thought that any
 8 of the activity would have hit and found out
 9 the journal entries that they booked in and
 10 then had to get copies from someone in the
 11 west for those entries.
 12 As you can see, all the dates were
 13 around the same. They were between April of
 14 1996 through June of 1996, so they would have
 15 had them in probably three different month
 16 end closing binders. It was a matter of them
 17 going and pulling them out and getting
 18 copies.
 19 Q. So did you have the manual journal entries in
 20 front of you as you prepared this Lotus
 21 schedule?
 22 A. I would have either had the journal entries
 23 in front of me or I would have had the
 24 printouts from the McCormick & Dodge activity
 25 system which gave me all the pieces because
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1 you could, once you knew the journal entry
 2 numbers, do a printout of the computer to
 3 know all the entries that were affected on
 4 the account or all the accounts that were
 5 affected on a journal entry.
 6 Q. As you were engaged in the project of
 7 preparing this schedule, did you speak to any
 8 of your colleagues in the western region
 9 accounting group about the classification of
 10 the Lockhart funds in 1996?
 11 A. I would have -- then I probably would have.
 12 Who I spoke with, sitting here today, I don't
 13 know. It would have probably been Nick
 14 because Nick was the -- Nick meaning
 15 Vidovich -- was in charge of AHERF accounting
 16 at that time. Nick or Jack Lydon.
 17 Q. By AHERF you mean AHERF the parent
 18 corporation?
 19 A. AHERF the parent. But Jack didn't have the
 20 month end closing books. Nick would have had
 21 them, so I would have had to have gotten
 22 entries probably from Nick.
 23 Q. And Jack is Jack Lydon?
 24 A. Correct.
 25 Q. After you prepared this schedule summarizing
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1 Q. Can you remember even whether you had a view
 2 as to whether the classification was proper
 3 or improper?
 4 A. No. I don't recall.
 5 Q. Do you know anything about what Mr. Cancelmi
 6 or others at AHERF may have done with this
 7 summary schedule that you prepared?
 8 A. At one point in time there was something on
 9 the analysis of reserves we referred to
 10 yesterday relative to the Lockharts or the
 11 investments. I don't recall exactly what
 12 numbers, if they came from here or some other
 13 source that made it into that file at some
 14 point in time.
 15 Q. By the analysis of reserves, you're referring
 16 to the X file?
 17 A. I'm referring to -- yes, we had referred to
 18 it as the X files, Exhibit 10 -- something
 19 similar to Bates number TNC9A01354. That
 20 would have been done at varying points in
 21 time. And I recall investments being an item
 22 at some point.
 23 Q. Do you remember who decided to make an entry
 24 in the X file that related to the Lockhart
 25 funds?
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 the 1996 journal entries with respect to the
 2 Lockhart funds, did you reach any conclusion?
 3 A. At that point I would have handed it to Dan
 4 who was more versed in 116, 17 and 24. He
 5 and Carolyn and potentially Al would have
 6 tried to sift through to figure out what was
 7 done versus what should have been done.
 8 Q. That's Carolyn Cafaro and Al Adamczak?
 9 A. Correct.
 10 Q. Did you have any view at the time about
 11 issues surrounding the classification of the
 12 Lockhart funds in fiscal year 1996?
 13 A. In 1996?
 14 Q. At the time that you prepared this summary
 15 schedule did you have any views about the
 16 classification back in fiscal year 1996 for
 17 the Lockhart funds?
 18 MR. JONES: Object to form.
 19 A. I don't know if I did. I probably would have
 20 had some view. I don't know what that view
 21 was because again I was not -- I did not read
 22 through 116 and 17 in-depth because I didn't
 23 have to implement it. That would have been
 24 Dan and Carolyn would have taken care of the
 25 investments.
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1 A. When you say make an entry into the analysis
 2 of reserves --
 3 Q. I mean do you recall who decided to include a
 4 row in the X file schedule that referred to
 5 the Lockhart funds?
 6 A. I would get anything relative to the analysis
 7 of reserves. I would take what was in there
 8 from the prior time we did it, print it out,
 9 update the pieces that I knew, talked to
 10 people that I knew I had gotten pieces from
 11 before. I would given it to Dan, who was my
 12 boss.
 13 Dan would then give it back with
 14 pencil changes, if he wanted to add new lines
 15 in, add new numbers or change numbers based
 16 on something that he knew speaking with
 17 someone else.
 18 So it wasn't an entry that would
 19 go -- but who would have determined to put it
 20 in there? Dan would have told me to put it
 21 in there. Who would have told him to? I do
 22 not know that.
 23 Q. Now, I think you testified that you believe
 24 that Mr. Cancelmi, Ms. Cafaro and
 25 Mr. Adamczak may have discussed the
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 Q. But the name of the account on the general
2 ledger was accrued miscellaneous; right?

3 A. I don't know if it was accrued miscellaneous
4 or accrued miscellaneous other. Again, for a
5 general ledger look at account 4020501, at
6 least on any of the hospitals that I had
7 responsibility for, it would have the same
8 name on all of them presumably.

9 Q. It wasn't called the slush account on the
10 general ledger, though, was it?

11 A. No.

12 MR. RYAN: Now, let me mark, please
13 as Defendant's Exhibit 48 a document with
14 Bates numbers DC4558, page 1 through page 3.

15 -----

16 (Deposition Exhibit 48 marked for
17 identification.)

18 -----

19 BY MR. RYAN:

20 Q. Do you recognize Defendant's Exhibit 48,
21 please?

22 A. Yes.

23 Q. What is it?

24 A. It's an analysis of the standing accruals.

25 Q. It's for the three Graduate System hospitals

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1 Q. Do you see on the next page the schedule from
2 Mt. Sinai Hospital there is an entry for a \$1
3 million transfer to DVOG hospitals?

4 A. Yes.

5 Q. Do you know what those entries are?

6 A. They correlate to some set of entries. I
7 don't know if we have seen them yet or not
8 without trying to match up entries.

9 Q. Did you in the ordinary course have entries
10 where amounts were transferred out of the
11 Graduate system accrued miscellaneous
12 accounts to DVOG hospitals?

13 A. In the normal course? I mean, going through
14 the normal monthly expenses, no.

15 Q. So these seem to be unusual entries to you?

16 A. Yes. Anything down at the other section was
17 usually an unusual.

18 Q. Do you recall who directed you to include
19 those entries?

20 A. I would have probably included them because
21 this crude miscellaneous 420501 account
22 should have corresponded directly to the
23 general ledger. So this basically provided
24 the activity that went through that account.
25 So I would have probably put that in there.

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1 for which you had accounting
2 responsibilities; right?

3 A. It's for Graduate accounts -- yes.

4 Q. Are these schedules that you prepared?

5 A. Yes.

6 Q. Do you have any memory of providing these
7 standing accrual analyses to Coopers &
8 Lybrand?

9 A. I don't recall specifically yes or no.

10 Q. Do you recall anything about that?

11 A. No.

12 Q. If you could look, please, on the first page
13 of this schedule for the Graduate Hospital
14 down at the section called Other?

15 A. Yes.

16 Q. Do you see the first line says Trsf to
17 EPC/SCHC/HUH?

18 A. Yes.

19 Q. Does that represent a transfer to Elkins
20 Park, St. Christopher's and Hahnemann
21 Hospitals?

22 A. Yes. That's what that represents.

23 Q. And do you see that entry there in the amount
24 of \$2,500,000?

25 A. Yes.

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1 Q. But you weren't the one who decided to
2 transfer, say, \$2 and a half million from
3 Graduate accrued miscellaneous account to
4 DVOG hospitals in May 1997, were you?

5 A. No.

6 Q. Who was it who directed you to do that?

7 A. I would have gotten my work responsibilities
8 from Dan who was my superior.

9 MR. RYAN: Let me mark, please, as
10 Defendant's Exhibit 49 a two-page document
11 with Bates number CLIS 205 through 206.

12 -----

13 (Deposition Exhibit 49 marked for
14 identification.)

15 -----

16 BY MR. RYAN:

17 Q. Do you recognize Defendant's Exhibit 49,
18 Mr. Lisman?

19 A. Yes.

20 Q. What is that?

21 A. An income statement information schedule.

22 Q. Do you know who prepared it?

23 A. It is under a Jodie meaning Jodie Finn
24 directory, but I don't know if the timing
25 again, since I have on page 2 of it Dan's

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1 handwritten -- no. I don't know if Jodie
 2 would have done the actual file or if -- no.
 3 Jodie would have done this, based on the
 4 looks of it, how it was set up.
 5 Q. So you think Jodie Finn typed the schedule?
 6 A. Dan would have given her a pencil copy of
 7 some sort to then put into this format.
 8 Q. Is the handwriting on the second page all, as
 9 far as you could tell, from Mr. Cancelmi?
 10 A. That's what it looks like.
 11 Q. Do you recall --
 12 A. Except the circled 6 of 1997 looks like my
 13 writing.
 14 Q. So that's in the upper right of the second
 15 page?
 16 A. Yes.
 17 Q. The rest of it, though, looks like
 18 Mr. Cancelmi's?
 19 A. The rest of it looks like Dan's writing.
 20 Q. Do you recall Mr. Cancelmi providing you with
 21 this schedule?
 22 A. I vaguely remember seeing this schedule.
 23 Q. What can you remember about it?
 24 A. Sitting here today, I don't. All the
 25 schedules look the same, and they all have a
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1 31,550 was broken out.
 2 Q. So when you received Defendant's Exhibit 49
 3 at the time and saw the use of 22,800,000 in
 4 reserves at DVOG, you knew that most of those
 5 reserves came from Graduate; right?
 6 A. Probably. But sitting here today I can't say
 7 yes, I remember that occurring. I made the
 8 correlation between the pieces, but I
 9 probably knew that, yes.
 10 Q. Did you ever provide Defendant's Exhibit 49
 11 to Coopers & Lybrand?
 12 A. Not that I recall.
 13 MR. RYAN: Let me mark, please, as
 14 Defendant's Exhibit 50 a document at Bates TN
 15 C9A 01783 through 1785.
 16 ---
 17 (Deposition Exhibit 50 marked for
 18 identification.)
 19 ---
 20 BY MR. RYAN:
 21 Q. Now, the first and third pages of Defendant's
 22 Exhibit 50 look to be the same as the two
 23 pages of Defendant's Exhibit 49, do they not?
 24 A. They appear to be, yes.
 25 Q. So if you could turn them, please, to the
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1 bunch of numbers on them, and they all have a
 2 bunch of columns that pretty much say the
 3 same thing. So I don't remember this
 4 schedule specifically, but it looks familiar.
 5 Q. Now, the second column is headed Use of
 6 Reserves; right?
 7 A. Yes.
 8 Q. And there is indicated here \$22,800,000 used
 9 at DVOG?
 10 A. Correct.
 11 Q. And that as indicated on this schedule took
 12 the results -- the year to date results
 13 through June 1997 from a profit of \$74,000 to
 14 a profit of \$22,874,000 in reserves; right?
 15 A. Okay.
 16 Q. That's how the schedule reads to you?
 17 A. That's how the schedule reads to me.
 18 Q. Most of the reserves show as being used at
 19 DVOG came from Graduate hospitals, didn't
 20 they?
 21 MR. JONES: Object to foundation.
 22 A. Yes.
 23 Q. And you knew that at the time that you
 24 received this exhibit, didn't you?
 25 A. We've already looked at Exhibit 45 where the
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 second page of Defendant's Exhibit 50.
 2 A. Okay.
 3 Q. Do you recognize this schedule?
 4 A. Vaguely, yes.
 5 Q. What is it?
 6 A. Income statement information starting with
 7 adjusted and then there is a column for
 8 adjustments and then a net income loss.
 9 Q. Can you describe what this schedule
 10 represents to you?
 11 MR. JONES: Object to form.
 12 A. It looks like it's saying, as I sit here
 13 today, column -- whatever the first column of
 14 numbers, adjusted net income/(loss). That's
 15 as reported. Column two, the adjustments
 16 that were done year to date. Column 3 would
 17 be what the consolidated income/(loss) would
 18 have been without utilization of adjustments
 19 year to date.
 20 Q. So schedule shows over \$100 million in
 21 adjustments for AHERF as a whole?
 22 A. That's what it appears, yes.
 23 Q. Those are all in fiscal year 1997; right?
 24 A. That's what this is saying, yes.
 25 Q. And you knew at the time in 1997 that AHERF
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 had made over \$100 million in adjustments
 2 that fiscal year; right?
 3 A. Compared to the schedule, yes, I would have
 4 known that.
 5 Q. Did you consider that to be significant at
 6 the time?
 7 A. Yes. Looking at it now, it's still
 8 significant.
 9 Q. Do you infer from this schedule that AHERF
 10 may, in fact, have earned less in fiscal year
 11 1997 than it reported on its income
 12 statement?
 13 A. Without --
 14 MR. JONES: Object to form.
 15 A. Without looking at each component of this, a
 16 lot of the adjustments could have been prior
 17 expenses taken on the hospital and were valid
 18 reversal of those expenses.
 19 Q. Did you ever tell anyone about the use of
 20 over \$100 million in adjustments at AHERF for
 21 fiscal year 1997?
 22 A. Would I have told anyone at AHERF?
 23 Q. Anyone at all.
 24 A. I would have given this to Dan at his request
 25 to prepare this. That's who I reported to
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 former Graduate Health System entities for
 2 which you had accounting responsibility;
 3 right?
 4 A. Yes. And I just want to -- Rancocas or AH,
 5 New Jersey wasn't a part of the Centennial
 6 group of hospitals. It was always referred
 7 to as part of the Graduate acquisition, but
 8 they were a separate reporting entity on
 9 their own. They were not a part of
 10 Centennial, as you can see here.
 11 Q. All right. So AHERF put the four
 12 Pennsylvania hospitals that it required from
 13 Graduate Health Systems into a bond obligated
 14 group known as Centennial; right?
 15 A. I think that's how they had their own
 16 obligating group also. I don't think
 17 Rancocas was a part of the Graduate, per se,
 18 group because it was a New Jersey hospital.
 19 Q. Okay. In any event, the four hospitals in
 20 Centennial Obligated Group were the four
 21 Pennsylvania-based hospitals that AHERF
 22 required for the Graduate Health System?
 23 A. Yes, the SDN required from the Graduate
 24 Health System.
 25 Q. And the AHERF that are acquired from SDN?
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 was Dan.
 2 Q. Okay. So you prepared the second page of
 3 Defendant's Exhibit 50 at the direction of
 4 Mr. Cancelmi?
 5 A. It looks like one of my schedules, yes.
 6 Q. The third column here is headed Without
 7 Cushion Net Income/(Loss) Year to Date;
 8 right?
 9 A. Yes.
 10 Q. What did you understand the term cushion to
 11 mean at the time?
 12 A. The term cushion?
 13 Q. Yes.
 14 A. Cushion would be reserve excess, not
 15 necessary.
 16 Q. Now, \$84,959,000 of these adjustments are
 17 indicated as having taken place at DVOG;
 18 right?
 19 A. Correct.
 20 Q. And an additional \$17,400,000 took place at
 21 former Graduate Health System hospitals for
 22 which you had accounting responsibility;
 23 right?
 24 A. What was that last part again?
 25 Q. \$17,400,000 of adjustments took place at
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 A. Yes.
 2 Q. And the Rancocas Hospital was on its own in
 3 the Obligated Group Allegheny Hospital, New
 4 Jersey?
 5 A. Yes.
 6 Q. AHERF ever made adjustments of this magnitude
 7 at hospitals which you had accounting
 8 responsibility in previous fiscal years?
 9 A. I thought we saw adjustments in 1996 on one
 10 of the schedules. Maybe not a hundred
 11 million, but I thought we saw adjustments in
 12 1996.
 13 Q. Right. Those were adjustments in
 14 substantially lower amounts; right?
 15 A. Lower than 107, yes.
 16 Q. Significantly lower; right?
 17 A. I don't know without looking back, but okay.
 18 Q. Did you have a view about these adjustments
 19 at the time?
 20 A. Did I have a view? I don't recall having any
 21 view. I would have probably discussed them
 22 with Dan, but I don't recall what the final
 23 outcome of those discussions were.
 24 Q. Do you remember whether you had any concerns
 25 that some or all of these adjustments might
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

CHARLES W. LISMAN, JR.

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1 COMMONWEALTH OF PENNSYLVANIA) ERRATA
 2 COUNTY OF ALLEGHENY) SHEET

3 I, CHARLES W. LISMAN, JR., have read the
 4 foregoing pages of my deposition given on Thursday,
 5 May 23, 2002, and wish to make the following, if any,
 6 amendments, additions, deletions or corrections:

7 Page/Line Should Read Reason for Change
 8
 9
 10
 11
 12
 13
 14
 15
 16
 17
 18
 19

20 In all other respects, the transcript is true and
 21 correct.

22 _____
 23 CHARLES W. LISMAN, JR.

24 Subscribed and sworn to before me this
 25 _____ day of _____, 2002.

Notary Public
 AKF Reference No. Cg70369
 MANHATTAN REPORTING CORP., A LEGALINK COMPANY

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1 AKF REPORTERS, INC.
 2 AKF Building
 3 436 Boulevard of the Allies
 4 Pittsburgh, PA 15219
 5 (412) 261-2323

6 May 28, 2002

7 TO: Charles W. Lisman, Jr.
 8 681 Valencia Road
 9 Mars, PA 16046

10 RE: VOLUME II DEPOSITION OF CHARLES W. LISMAN, JR.
 11 NOTICE OF NON-WAIVER OF SIGNATURE

12 Your deposition transcript is completed and
 13 ready to be read and signed by you.

14 You must come to our office where your
 15 deposition transcript will be submitted to you, in
 16 the privacy of a conference room, for reading and
 17 signing. Please call our above number to make an
 18 appointment. Our office hours are 9:00 a.m. to 5:00
 19 p.m., Monday through Friday.

20 All corrections, if any, are to be noted on an
 21 Errata Sheet, which is part of the transcript. We
 22 will then notarize your signed Errata Sheet and send
 23 a copy to all attorneys who ordered a copy of the
 24 transcript.

25 You must read and sign your transcript within
 thirty (30) days of your receipt of this Notice.

Claire Gross, CRR, RDR
 Court Reporter
 AKF Reporters, Inc.
 AKF Reference No. Cg70369

cc: Antony L. Ryan, Esq.
 James M. Jones, Esq.

Lydon Dep.

JOHN LYNDON

Page 1

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF PENNSYLVANIA

- - - -

THE OFFICIAL COMMITTEE OF)
UNSECURED CREDITORS OF)
ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION,)

Plaintiff,)

-vs-)

PRICEWATERHOUSECOOPERS, L.L.P.)

Defendant.)

Civil Action
No. 00-684

- - - -

VIDEO TAPE
DEPOSITION OF: JOHN T. LYDON

- - - -

DATE: June 18, 2002
Tuesday, 8:58 a.m.

LOCATION: MANION McDONOUGH & LUCAS
14th Floor, USX Tower
Pittsburgh, PA 15219
412-232-0200

TAKEN BY: Defendant

REPORTED BY: Claire Gross, CRR, RDR
Notary Public
AKF Reference No. Cg70722

JOHN LYNDON

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1 of sprawled across the middle of the page
 2 that begins Al and Dan.
 3 A. Yes.
 4 Q. It looks like it's signed Steve?
 5 A. Yes.
 6 Q. Is that Mr. Spargo's handwriting?
 7 A. Yes, it is.
 8 Q. Do you recognize the handwriting then in the
 9 upper left corner where it says Doesn't make
 10 economic sense, question mark?
 11 A. I want to say that's Dan Cancelmi's, but I
 12 don't know that for sure. I don't know.
 13 Q. Okay. If you don't know, then that's fine.
 14 A. Okay.
 15 Q. Are you able to recognize the handwriting in
 16 the upper right with the initials that look
 17 like D. C. and the date?
 18 A. Well, that would be Dan Cancelmi. Oops,
 19 sorry. I just broke the microphone. Yes.
 20 That would definitely be Dan's.
 21 Q. Do you know whose handwriting it is where the
 22 name Steve appears in the upper right?
 23 A. I'm sorry. Right here?
 24 Q. Yes.
 25 A. I don't.

1 recall any now. Obviously this Bill Kennedy,
 2 it sounds like someone that was in legal, but
 3 you got -- he could have worked at Mellon for
 4 all I know.
 5 Q. All right. Do you see down towards the
 6 bottom of the page there is some handwriting
 7 which looks to me like it says Presumably
 8 realized gains, question mark?
 9 A. Yes.
 10 Q. Do you know whose handwriting that is?
 11 A. I don't.
 12 Q. How about toward the top of page 2 where it
 13 looks like somebody has written Do we have
 14 copies of this info, question mark?
 15 A. Again, that looks like Dan Cancelmi's
 16 writing, but I'm guessing here.
 17 Q. Okay. We'll come back to this, but let's
 18 just go back for a moment to Exhibit 185,
 19 which was Mr. Cancelmi's August 25, '98 memo.
 20 Do you see the last textural paragraph on
 21 that page begins, It is my understanding that
 22 there was original uncertainty as to the
 23 appropriate classifications of the five
 24 trusts?
 25 A. Yes.

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1 Q. Okay. Do you recognize the handwriting of
 2 the note which is sort of on the right hand
 3 part of the page which looks like it's signed
 4 Bill K.?
 5 A. No, I don't recognize that.
 6 Q. Do you remember someone at AHERF named Bill
 7 Kennedy?
 8 A. The name sounds familiar, but I guess I would
 9 say he was somewhere in legal counsel. Yes,
 10 I think so. I don't know that I ever met
 11 him. The name sounds familiar.
 12 Q. Did you ever in the course of your duties at
 13 AHERF have occasion to consult with members
 14 of the AHERF legal department?
 15 A. Myself specifically, not that I recall.
 16 Q. Do you know whether Mr. Adameczak or
 17 Mr. Spargo did?
 18 A. I would have to say almost definitely
 19 Mr. Spargo did. Mr. Adameczak, it would be a
 20 guess, but probably on a sporadic basis.
 21 Q. Did you know people who worked in the AHERF
 22 legal department?
 23 A. I'm sure I can recognize names -- I'm not
 24 sure I recognize names, but I'm sure at the
 25 time I was familiar with names, but I can't

1 Q. Do you recall that at the time there was
 2 uncertainty as to the appropriate
 3 classification of the Lockhart trust?
 4 MR. JONES: Object to foundation.
 5 A. Yes. I guess 116 and 117 when we adopted it,
 6 there was some questions as to how we were
 7 going to record it or what we were going to
 8 do as we went through.
 9 Q. Do you see the next sentence reads, At the
 10 time SFAS 117 was adopted, which was at the
 11 beginning of fiscal year '96 or 7-1-95, a
 12 determination was made to classify the
 13 majority of trusts as temporarily restricted
 14 (\$70.7 million) and a portion as permanently
 15 restricted (\$5.4 million)?
 16 A. Okay. Yes, I see that.
 17 Q. If you look back at Exhibit 19, which was the
 18 schedule of the trusts, do you see that same
 19 \$5.4 million amount in the Contribution
 20 column?
 21 A. Yes.
 22 Q. Do you see the same \$70.7 million amount in a
 23 row that reads Sub Total towards the bottom
 24 of the page?
 25 A. Yes.

19 (Pages 70 to 73)

JOHN LYNDON

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- 1 Q. Does reading this and looking at this
2 schedule help to refresh your recollection as
3 to which portions of the Lockhart funds were
4 classified as permanently restricted and
5 which were classified as temporarily
6 restricted?
7 A. Well, looking at these papers, it's obviously
8 reported the contribution as permanent and
9 looks like everything else went to a
10 temporarily restricted.
11 Q. Now, shown on this schedule here Exhibit 19,
12 the \$70.7 million amount is the sum of the
13 columns Unrealized Gain at June 30, '95 and
14 Realized Gain at June 30, '95; right?
15 A. That's correct.
16 Q. So in terms of the total \$87.3 million market
17 value as shown on this schedule, in addition
18 to the \$5.4 million original contribution
19 amount and this \$70.7 million amount for the
20 gains through June 30, 1995, there are also
21 the two columns for gains in fiscal year
22 1996; right?
23 A. Okay, yes. The 3.3 and the 7.4, yes.
24 Q. Right.
25 A. Yes.

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- 1 Q. So if we added up the \$5.4 million, \$70.7
2 million and the two numbers you were just
3 referring to, the \$3.7 and the \$7.4 million,
4 then we would get the total market value of
5 \$87.3 million; right?
6 A. That's correct.
7 Q. Going back to Exhibit 185, Mr. Cancelmi's
8 memo, do you see the next sentence after the
9 one we were just looking at reads, It is my
10 understanding that the initial conclusion was
11 that investment earnings through the years
12 were unrestricted, however, the cumulative
13 earnings were set aside and classified as
14 temporarily restricted and viewed as a
15 reserve?
16 A. Certainly.
17 Q. I'm in the middle of this last textual
18 paragraph. Sentence begins, It is my
19 understanding.
20 A. Okay, yes. I'm sorry.
21 Q. I think you testified earlier that there were
22 some endowment funds held at AHERF for which
23 even though the principal amount was
24 restricted, the income in the form of
25 dividends or interest on bonds was

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- 1 unrestricted income; is that right?
2 A. If that's what I recall. I mean, if I'm
3 recalling correctly, yes. I think I said
4 that.
5 Q. Do you know whether that was the case for the
6 Lockhart funds?
7 MR. JONES: Object to form.
8 A. I mean, until 117 -- I think what I said was
9 until 117 come in, it was the Lockhart funds
10 were restricted. I guess what I'm trying to
11 recall if -- if I said that what funds I'm
12 referring to that would have been restricted
13 and principal but unrestricted and income --
14 and I can't recall specifically what those
15 might be, so I don't know if that was a right
16 thing to say.
17 Q. Now, at the end of the sentence we were just
18 looking at Mr. Cancelmi states that certain
19 amounts were classified as temporarily
20 restricted and viewed as a reserve?
21 A. Okay.
22 Q. Do you remember anything about amounts that
23 were classified as temporarily restricted
24 being viewed as a reserve?
25 A. I think when we made the entries related to

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- 1 117, we did -- yes, I believe we did look at
2 that as a reserve, those monies that we
3 pulled out of that account as unrealized gain
4 is what we did is put them into a specific
5 account and looked at it as a reserve. Yes,
6 I do recollect, that I believe.
7 Q. Now, was it your understanding of how FASB
8 117 worked that over time temporarily
9 restricted funds could be released from
10 restriction and then classified as
11 unrestricted?
12 A. Yes. That was my understanding.
13 Q. And is that why you viewed the amounts
14 classified as temporarily restricted as a
15 reserve, namely that in future periods they
16 could be released from restriction?
17 MR. JONES: Object to form.
18 A. I don't know that. I mean, I don't know that
19 was my thought process at the time. We went
20 back and looked at the, quote, unquote,
21 Lockhart funds and determined what was
22 realized and unrealized, pulled those amounts
23 out.
24 But I think my -- I think my
25 understanding was that we had through time

20 (Pages 74 to 77)